

Annual

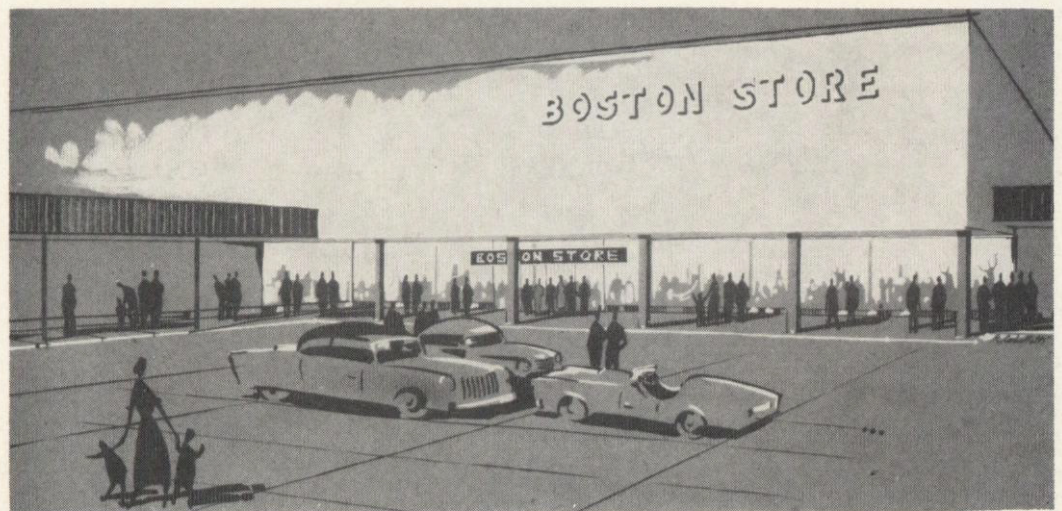
Report

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INTERSTATE DEPARTMENT STORES, INC.



*The Evansville Store
Evansville, Indiana*



*Planned Suburban Store
Latham Corners, N. Y.*

INTERSTATE DEPARTMENT STORES, INC.

DIRECTORS

SAMUEL J. ABEND	HAROLD F. LINDER
ROBERT S. ADLER	BENJAMIN W. MAYER
SOL W. CANTOR	ALBERT PARKER
CHARLES E. FEDERMAN	HERBERT J. REEVES
PAOLINO GERLI	MURRAY D. SAFANIE
R. C. KRAMER	HAROLD J. SZOLD

OFFICERS

<i>Chairman of the Board</i>	R. C. KRAMER
<i>President</i>	SOL W. CANTOR
<i>Vice President</i>	SAMUEL J. ABEND
<i>Vice President</i>	BARRY GOLDEN
<i>Treasurer</i>	GEORGE H. STUNTZ
<i>Secretary</i>	ALBERT PARKER
<i>Assistant Treasurer and Assistant Secretary</i>	EDWARD C. SCHENKEL

<i>Transfer Agent</i>	THE CHASE MANHATTAN BANK	New York
<i>Registrar</i>	MANUFACTURERS TRUST COMPANY	New York
<i>General Counsel</i>	PARKER, CHAPIN AND FLATTAU	New York
<i>Public Accountants</i>	S. D. LEIDESDORF & CO.	New York
<i>Executive and General Offices</i>	111 EIGHTH AVENUE	New York

SUMMARY OF 1955

	Years Ended January 31	
	1956	1955
Sales	\$66,359,495	\$62,902,735
Net Income Before Taxes	2,348,613	1,980,971
Net Income After Taxes	1,360,975	1,078,881
Earnings Per Share	4.40	3.51
Dividends Paid Per Share	2.50	2.50
Long Term Debt	5,465,541	5,951,345
Working Capital	13,206,365	13,340,119
Stockholders' Equity Per Share	45.99	44.46
Current Ratio	3.8 to 1	4.2 to 1

April 26, 1956

To the Stockholders of

INTERSTATE DEPARTMENT STORES, INC.

1955 was a good year for your Company. The Summary on the preceding page highlights your Company's operations during the year.

Business conditions were generally good in those areas in which our stores are located and they consequently benefited from these conditions.

EARNINGS: Earnings before taxes for last year were \$367,000 higher than for the previous year, and after taxes they were \$282,000 higher. Earnings of \$2,348,600, before taxes, compare with \$1,980,900 for the previous year. After taxes, earnings were \$1,360,900 for fiscal 1956 against \$1,078,800 for fiscal 1955, equivalent to \$4.40 per share of Common Stock compared with \$3.51 per share in the prior year. The improvement in earnings came from three sources; increased sales, increased gross profit margin and a reduction in the cost of doing business. Of these three elements, the greatest and most constructive improvement resulted from savings in the cost of doing business. This factor is of particular importance to stores of our type, and we are striving to show further improvement in this area of operations.

SALES: Sales of \$66,359,500 were 5.5% greater than last year. This increase occurred in sales of our own departments, which were the highest in Company history. Leased department sales during the period showed a slight decline, due entirely to lower "grocery" sales which, however, did not materially affect earnings.

Our entire sales increase was in "soft goods." "Hard line" sales declined. During the past two years we have steadily de-emphasized "hard line" sales, including refrigerators and other major appliances, and increased emphasis on "soft goods" lines.

We believe there is a much greater opportunity for your Company for profitable growth by greater concentration on "soft goods." The sale of "soft goods" in 1955 represented 92.5% of the total sales of the Company's own departments.

BUILDING EQUIPMENT AND FIXTURES: During the past year, approximately \$690,000 was spent in further improving our store buildings and fixtures. On pages 10 and 11 of this Report are photographs of improvements in our Huntington, West Virginia and Rockford, Illinois stores. This program of improvement is constantly being carried forward by the Company.

NEW STORES AND PLANS: During the year, we acquired two stores in Rutland, Vermont. One of them is, we believe, the largest store in that state. The second, a small unit, is being conducted as an experimental store.

During 1955, the old Economy store in Evansville, Indiana was closed upon the expiration of its lease. The new and larger Evansville store, opened in 1952, a major store in the chain, a photograph of which is included on the inside cover page, continues to make substantial progress.

Your Company has not opened new stores in recent years. Attention has been concentrated on improving the stores already owned, and the acquisition of existing stores when attractive opportunities are presented. The time is right, we believe, for a forward looking, soundly conceived expansion policy, and we have been actively devoting much of our efforts toward developing and carrying out such a policy.

Present plans call for the opening of seven stores during the next eighteen months. These stores are located in suburban shopping centers, where they will be important units in their community. It is expected that they will add more than ten million dollars to annual sales. One of the new stores, at Latham Corners, New York, will serve an area that will draw from Schenectady, Albany and Troy, and will be larger than any department store in those cities. An architect's sketch of this store is also included on the inside cover page of this Report.

During May of this year, an experimental store with low operating cost and correspondingly low markup will be opened in Rochester, New York.

FINANCIAL: During the year there was a reduction of over \$600,000 of long term debts to banks and insurance companies. The increase in mortgages payable represents a mortgage obtained on the buildings purchased in conjunction with the acquisition of the stores in Rutland, Vermont. This mortgage represents substantially our entire cost of the land and buildings.

The ratio of current assets to current liabilities as at the close of 1955 was 3.8 to 1.

Accounts receivable, consisting mainly of time payment accounts, showed an increase of \$340,000. Collections on these accounts continue satisfactorily.

Dividends of \$2.50 per share were paid on Common Stock during the year. The regular quarterly dividend of 62½¢ per share for the first quarter of the current fiscal year was paid on April 14, 1956.

STOCKHOLDERS' EQUITY: Stockholders' Equity at book value has again increased during 1955 from \$44.46 per share to \$45.99 per share at January 31, 1956.

GENERAL: The year just closed has been one in which a comprehensive program for the expansion of your Company has been instituted. This program, which included the acquisition of two stores, the plans for the opening of additional stores, plus the continued emphasis on improving operations in our other stores, make your Company's outlook favorable.

We would like to express our appreciation for the efforts of our co-workers and the cooperation of our suppliers which helped make possible the favorable results achieved in 1955.

For the Board of Directors,

R. C. KRAMER, *Chairman*

SOL W. CANTOR, *President*

INTERSTATE DEPARTMENT STORES, INC.
and Subsidiary Companies

CONSOLIDATED STATEMENT OF EARNINGS
For the Year Ended January 31, 1956-1955

	<u>1956</u>	<u>1955*</u>
NET SALES:		
Owned Departments	\$59,061,773	\$55,511,728
Leased Departments	7,297,722	7,391,007
	<u>66,359,495</u>	<u>62,902,735</u>
COST OF SALES (including buying, occupancy and distribution expenses)	49,918,199	47,495,105
	<u>16,441,296</u>	<u>15,407,630</u>
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	14,039,116	13,466,560
	<u>2,402,180</u>	<u>1,941,070</u>
OTHER INCOME—NET	165,195	266,666
	<u>2,567,375</u>	<u>2,207,736</u>
INTEREST EXPENSE	218,762	226,765
NET EARNINGS BEFORE FEDERAL TAXES ON INCOME	2,348,613	1,980,971
PROVISION FOR FEDERAL TAXES ON INCOME	1,020,000	770,000
NET EARNINGS	<u>1,328,613</u>	<u>1,210,971</u>
SPECIAL ITEM:		
Increase or <i>decrease</i> in reserve to reduce merchandise inventories at cost as determined on the "last-in, first-out" basis to the lower of cost or market	32,362	132,090
NET EARNINGS AND SPECIAL ITEM	<u>\$ 1,360,975</u>	<u>\$ 1,078,881</u>

Red figures are designated by *italics*.

CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY
For the Year Ended January 31, 1956-1955

	<u>1956</u>	<u>1955</u>
EARNINGS RETAINED FOR USE IN THE BUSINESS AS AT BEGINNING OF YEAR	\$10,213,112	\$ 9,902,993
NET EARNINGS AND SPECIAL ITEM	1,360,975	1,078,881
	<u>11,574,087</u>	<u>10,981,874</u>
CASH DIVIDENDS PAID	773,761	768,762
EARNINGS RETAINED FOR USE IN THE BUSINESS AS AT END OF YEAR	<u>10,800,326</u>	<u>10,213,112</u>
CAPITAL SURPLUS (no change in 1955) (Note C)	2,162,758	1,918,058
COMMON STOCK (stated at par value of \$1 per share since May 27, 1953, plus \$1,271,306 retained as Capital by resolution of the Board of Directors—no par value prior thereto)—(Note C)		
	<u>1956</u>	<u>1955</u>
Authorized	500,000	500,000 shares
Issued	316,946	308,946 shares
	<u>1,588,252</u>	<u>1,580,252</u>
	14,551,336	13,711,422
Less—1,446 shares of Common Stock held in treasury—at cost	40,871	40,871
STOCKHOLDERS' EQUITY (Notes B and C)	<u>\$14,510,465</u>	<u>\$13,670,551</u>

* Reclassified for comparative purposes.

Depreciation and amortization amounting to \$765,810 in 1956 and \$737,944 in 1955 have been charged to cost of sales and selling, general and administrative expenses.

The Notes to Financial Statements are an integral part of these statements and should be read in conjunction herewith.

INTERSTATE DEPART
and Subsidiary
CONSOLIDATED BALANCE SHEET

ASSETS

	1956	1955
CURRENT ASSETS:		
Cash	\$ 628,492	\$ 615,386
Short-term investments (including United States Treasury bills—net) at cost, plus accrued interest	—	610,074
Accounts receivable:		
Customers	\$ 5,553,151	\$ 5,213,417
Less: Reserves	494,638	504,168
Other	382,710	199,766
Merchandise inventories (Note A)	11,723,209	11,156,557
Less: Reserve to reduce merchandise inventories at cost as determined on the "last-in, first-out" basis to the lower of cost or market	166,931	199,293
Prepaid expenses	361,797	366,024
Total Current Assets	17,987,790	17,457,763
OTHER ASSETS	13,693	10,572
FIXED ASSETS—at cost:		
Land (subject to mortgages—per contra)	\$ 185,099	\$ 96,099
Buildings (subject to mortgages—per contra)	\$ 511,733	\$ 234,630
Less: Reserves for depreciation	92,684	73,886
	\$ 419,049	\$ 160,744
Furniture and equipment	\$ 5,239,326	\$ 5,007,735
Less: Reserves for depreciation	2,477,576	2,102,967
	\$ 2,761,750	\$ 2,904,768
Leaseholds and leasehold improvements	\$ 4,027,219	\$ 3,687,997
Less: Reserves for amortization	955,550	739,799
	\$ 3,071,669	6,109,809
DEFERRED CHARGES	410,092	246,243
	\$24,849,142	\$23,824,387

The Notes to Financial Statements are an integral part of t

MENT STORES, INC.

Companies

AS AT JANUARY 31, 1956-1955

LIABILITIES

	1956	1955
CURRENT LIABILITIES:		
Notes Payable—current installments (Note B)	\$ 265,000	\$ 140,000
Accounts payable—trade	2,520,949	2,388,156
Accrued expenses and sundry other liabilities	1,421,694	1,040,398
Taxes withheld and accrued, other than Federal taxes on income	516,527	549,090
Accrued Federal taxes on income	\$1,053,424	\$ 887,864
Less: United States Treasury bills— at cost plus, in 1956, accrued interest	996,169 57,255	887,864 —
Total Current Liabilities	4,781,425	4,117,644
Deferred Federal Taxes	20,000	
LONG-TERM DEBT:		
Notes payable (Note B)	5,015,000	5,780,000
Mortgages payable	450,541 5,465,541	171,345 5,951,345
Total Liabilities	10,266,966	10,068,989
DEFERRED INCOME—CARRYING CHARGES ..	71,711	84,847
STOCKHOLDERS' EQUITY (Notes B and C) ..	14,510,465	13,670,551
LEASE COMMITMENTS (Note D)		
	<u>\$24,849,142</u>	<u>\$23,824,387</u>

his statement and should be read in conjunction herewith.

INTERSTATE DEPARTMENT STORES, INC.
and Subsidiary Companies

NOTES TO FINANCIAL STATEMENTS

As at January 31, 1956

Reference is made to the Annual Report for the year ended January 31, 1955 for notes and comments pertaining to financial statements as at that date.

NOTE A—Merchandise inventories include merchandise in transit amounting to \$1,325,557 as at January 31, 1956 based on specific invoice cost.

Merchandise inventories at stores are based on the retail method at (a) cost as determined on the "last-in, first-out" basis, or (b) the lower of cost or market after provision for markdowns based on age of merchandise.

Merchandise inventories at warehouses are priced at the lower of cost or replacement market.

NOTE B—Notes payable as at January 31, 1956 are due to:

Bank	\$2,000,000
Insurance company	3,280,000
	<u>\$5,280,000</u>

The bank loan is payable in annual installments of \$500,000 on November 1, 1958 and 1959, and a final installment of \$1,000,000 on November 1, 1960. Interest is payable quarterly at an annual rate of not less than $2\frac{1}{2}\%$ nor more than $3\frac{1}{4}\%$, determined as prescribed in the credit agreement under which the loan was granted.

The notes payable to an insurance company in the amounts of \$2,475,000 and \$805,000 require annual payments as follows: on the first note, \$200,000 from 1956 through 1958, \$325,000 in 1959, \$350,000 from 1960 through 1962 and \$500,000 in 1963; on the second note, \$65,000 from 1956 through 1966, inclusive, and \$90,000 in 1967.

The loan agreements with the insurance company and the bank credit agreement contain, among other things, restrictions on the right of the Company to declare dividends (other than stock dividends) and reduce its capital stock, including, with respect to the insurance company loan agreements, a requirement that, after giving effect to the payment of such dividends, there are prescribed ratios of consolidated net current assets and of consolidated net tangible assets to consolidated funded debt. As at January 31, 1956 approximately \$2,700,000 of the consolidated surplus of \$12,963,084 is not subject to the aforementioned restrictions contained in the agreements.

NOTE C—A stock option plan for officers and key employees of the Company and its subsidiaries authorized the granting of options to purchase not in excess of 25,000 shares of the Common Stock of the Company. To January 31, 1955, options to purchase 10,500 shares had been granted but not exercised. During the current year, options for the purchase of 8,000 shares at \$31.5875 per share were exercised. The proceeds, amounting to \$252,700, were credited to Common Stock (\$8,000) representing the par value of 8,000 shares issued and to Capital Surplus (\$244,700). An option for the purchase of 2,500 shares at \$27.43125 per share, granted in a prior year, is outstanding at January 31, 1956.

NOTE D—At January 31, 1956, the minimum annual rentals upon real property leased to the Company or to its subsidiaries under 61 leases expiring after January 31, 1959 amount to approximately \$1,300,000, plus, in certain instances, real estate taxes, insurance, etc.

GENERAL—The accompanying financial statements are subject to final determination of Federal, state and local taxes.

S. D. LEIDESDORF & CO.

Certified Public Accountants

ACCOUNTANTS' REPORT

To the Board of Directors

INTERSTATE DEPARTMENT STORES, INC.

New York, N. Y.

We have examined the consolidated balance sheet of Interstate Department Stores, Inc. and subsidiary companies as at January 31, 1956 and the related consolidated statements of earnings and stockholders' equity for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the accompanying consolidated balance sheet and consolidated statements of earnings and stockholders' equity, together with the notes to financial statements, present fairly the consolidated financial position of Interstate Department Stores, Inc. and subsidiary companies at January 31, 1956, and the consolidated results of their operations for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

S. D. LEIDESDORF & Co.

New York, N. Y.

April 9, 1956

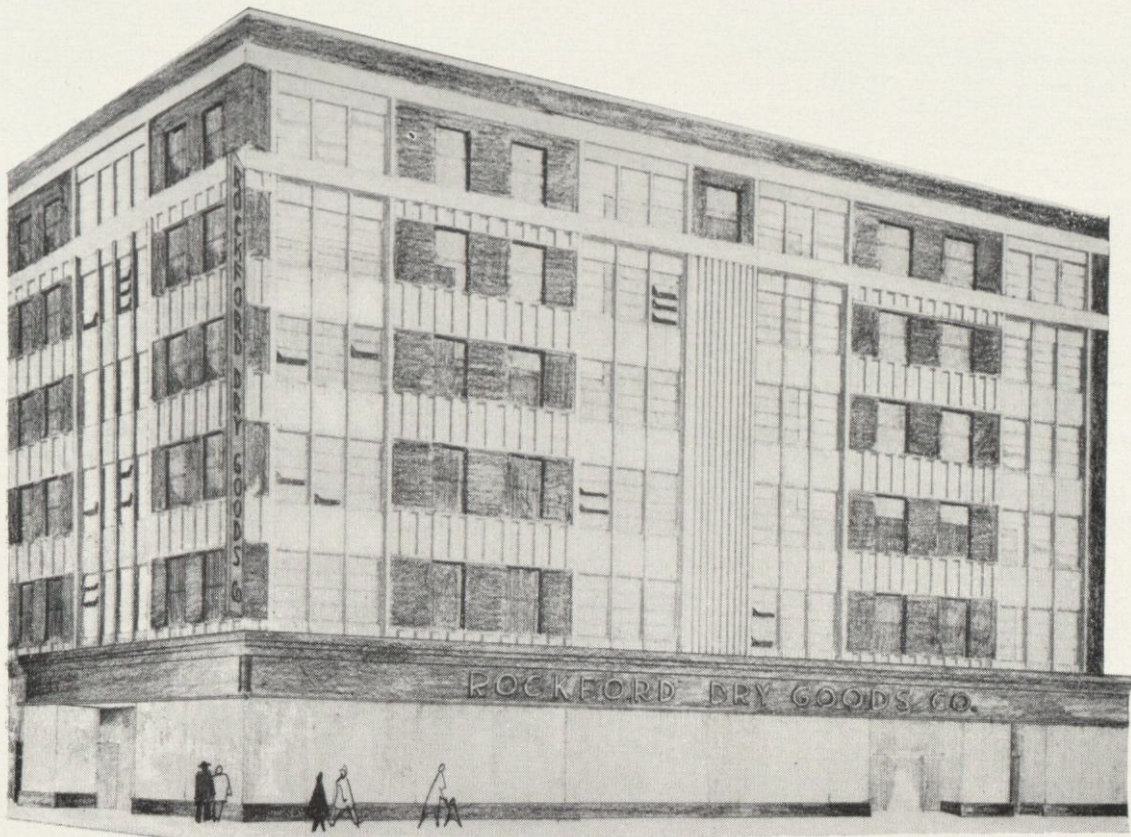


*Huntington,
West Virginia
Store before
remodelling*



*The Huntington
Store today*

*Rockford,
Illinois
Store before
remodelling*



*The Rockford
Dry Goods Co.
today*

LOCATION AND NAME OF STORES

CONNECTICUT

New Haven Stanley's

ILLINOIS

Aurora Aurora Dry Goods Co.
 Belleville Carroll House
 Decatur Decatur Dry Goods Co.
 Peoria Peoria Dry Goods Co.
 Rockford Rockford Dry Goods Co.
 Springfield Springfield Dry Goods Co.
 Waukegan Waukegan Dry Goods Co.

INDIANA

Anderson Hill's
 Evansville The Evansville Store
 Fort Wayne Grand Leader
 Marion Hill's
 Muncie Stillman's
 South Bend Grand Leader
 Vincennes Hill's

IOWA

Davenport Hill's
 Des Moines Hill's

KENTUCKY

Louisville Jefferson Dry Goods Co.
 Paducah Paducah Dry Goods Co.

MICHIGAN

Battle Creek Grand Leader
 Flint The Fair
 Jackson Stillman's
 Lansing Lansing Dry Goods Co.
 Port Huron Carroll House

NEW YORK

Troy Stanley's
 Utica Boston Store

OHIO

Akron Federman's
 Springfield Boston Store

PENNSYLVANIA

Reading Read's
 Williamsport Carroll House
 York Stillman's

SOUTH CAROLINA

Anderson Baile's

TENNESSEE

Knoxville The Knox

VERMONT

Rutland Economy Department Store
 Rutland Wonder Store

VIRGINIA

Staunton Carroll House

WEST VIRGINIA

Huntington The Huntington Store

WISCONSIN

Fond du Lac..Fond du Lac Dry Goods Co.
 Green Bay Hill's
 Madison Hill's
 Milwaukee Hill's
 Racine Racine Dry Goods Co.
 Sheboygan Hill's Department Store
 West Bend Carroll House

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